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TASKS OF CREDIT MANAGEMENT IN HUNGARY

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Tamas Bacskai

Together with merchandising and money, such important economic categories as budget and credit have also been retained by the People's Democracies. As to credit, however, only the form is the same; its role has undergone a radical change. In the socialist society, credit relations are established between the state on the one hand and cooperatives and the population on the other.

Between the state and the cooperatives, the most important form of credit is the long-term and medium-term investment loan. In addition to such loans, granted by the state on very favorable terms, the cooperatives also receive short-term loans. On the other hand, the state makes use of the cash-on-hand of the cooperatives, which they are required to deposit in the bank.

In the credit relations between the state and the population, state loans should be mentioned first. These loans are used by the socialist state in the interests of the entire population, primarily for the expansion of production. The state loan is a special form of capital accumulation: the subscribers give up part of their intended consumption in an effort to achieve a higher standard of living in the future. At the same time, they expect to get back, directly or indirectly, the amount of the loan to which they subscribed. In the USSR, several state loans have already been repaid in full by the state. In 1955, repayment of the Hungarian Five-Year Plan Loan will also be completed. Meanwhile, amortization of other loans, as well as payment of interest, mostly in the form of lottery drawings, is being carried on according to plan. In the USSR, 20-year state loans are usually issued; in Hungary, the fourth and fifth Peace Loans were issued for the same length of time.

The attraction of state loans would undoubtedly be enhanced if they were issued for shorter periods, say, 12-15 years. The basis for such a change will be established soon, because the strain on Hungary's investment policy has been lifted. Investments in the light, food, and small-machine-building industries, which require shorter amortization periods, are increasing; and new investments are being earmarked largely for the increase of stocks on hand.

The savings bank deposits of the population are also short-term loans extended to the state. For this reason, the government has granted substantial privileges to depositors. The volume of deposits -- that is, the balance between deposits and withdrawals -- constitutes a basis for long-term loans in the socialist state. This balance shows a constant growth. The development of the volume of deposits depends on the supply of durable consumer goods (refrigerators, agricultural implements, motor bicycles, etc.). In the USSR, statistics on special savings deposits are being used as a means of market research for the planning of durable consumer goods.

As regards credits extended to the population, the state is granting long-term loans to the workers for such purposes as home building. For 1954, approximately 200 million forints has been allocated for this purpose at 3 percent interest for a period of 25 years. Credits extended to workers include production loans to small producers. The purpose of these loans is to assist small peasants

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and craftsmen. In connection with such loans, thorough investigation of the borrower and control of the use of the loan according to plan are necessary to prevent the diversion of such funds to speculative hoarding.

Credit relationship exists not only between the state and cooperatives, and the state and the population, but also within the state, i.e., between the state and its enterprises. The credits granted by the state to its enterprises represent the bulk of outstanding loans and have an incomparably greater role in production than the varieties of credit mentioned above. Also, the bank which extends the loan has extensive control possibilities over the borrowing enterprises. By means of such control, exercised by the central bank, the state can supervise, day by day, the production and turnover of its enterprises.

How can the occurrence of temporary cash surpluses and deficiencies in production be explained? These occurrences are largely due to seasonal factors, especially in agriculture. Socialist planned economy is characterized by the fact that its means of production are continuously in use in social production. The means of production are redistributed by the state; while they are seasonally diminished in certain branches of production, they are increased in other branches. For example, the means of production of state farms, MTS, and producer cooperatives are increased during the first half of the year, while stocks on hand in the produce collection agencies, the processing industries, and commerce are diminished. In the second half of the year, on the other hand, the means of production of state farms, MTS, and producer cooperatives are diminished while in the produce collecting agencies, processing industries, and commerce, heavy seasonal stocks are built up.

Bank control over credits extended is an important means for improving the activities of an enterprise. For this reason, in the USSR, even enterprises whose production is conducted at a most even pace are required to raise part of their working capital from bank credits.

Temporary credit requirements can be supplied by the banking system because the unused cash funds of the state administration and of the economic organs, as well as the savings of the population, are deposited in the banks and eventually are channeled to the Hungarian National Bank. Short-term loans are extended only by the state banks in the USSR and by the National Bank in Hungary. In other words, the extension of short-term loans is a monopoly of the central bank; and commercial credit -- that is, credit extended by one enterprise to another -- is nonexistent in the socialist state. In 1953, the combined total working capital and credit extension increased only by 2.6 percent as compared with an increase of 11.8 percent in production [over 1952?]. Credit for this relative reduction in working capital is largely due to the Hungarian National Bank. Appropriate and economical credit extension, together with the repayment of loans when due, increases the rapidity of circulation of the means of the People's Democracies, a fact which, in turn, enables the state to fulfill the national economic plan with less, or the same amount of, working capital.

In credit extension, therefore, the following three basic conditions must be kept in mind: (1) adequate cover for the loan, (2) purpose of the loan, and (3) due date.

(1) If a borrowing enterprise lacks adequate cover, it might spend its working capital and waste social property entrusted to its care.

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(2) The purpose of the loan must be in agreement with the planned tasks of the enterprise. The bank must, therefore, examine the plan fulfillment of the enterprise. Also, the loan must have been approved by the Council of Ministers in the framework of the credit plan of the enterprise.

(3) Strict control of the due date prevents excessively long periods which would interfere with the adequate redistribution of working capital. The due date cannot be extended, and the borrowing enterprise is required to repay or amortize the loan prior to the due date if the purpose of the loan has been accomplished earlier than originally expected. In case the loan is not fully repaid by the due date, the remaining amount is transferred to an "overdue credit account," on which interest is charged at a higher rate than on planned credits.

According to certain experts, the conditions for socialist credit extension, especially for adequate cover, did not exist in 1952. These experts believe that the principle of adequate cover can be fully enforced only if the majority of the enterprises fulfill their cost-of-production plans. In the case of non-fulfillment of the cost-of-production plan, bank credit would have to be replaced by forced loans extended by one enterprise to another. Thereby the enterprises would spontaneously redistribute their working capital among themselves, the state monopoly and control over its distribution would be undermined, and the financial difficulties of one enterprise would spread to other enterprises. Another result would be that the so-called queuing up (sorbanallas) could not be avoided. (The term "queuing up" is equivalent to insolvency. It originated in the fact that claims against an insolvent enterprise are satisfied in a certain order.)

These views are wrong. The credit system cannot look at the economic processes passively but must actively promote the reduction of production costs. Consistent application of the principle of adequate cover serves this very purpose, and evidence of its success was furnished by the fact that in June 1954 credit extended in queuing up cases was only a small fraction of the total amount of credit extended. In the USSR the number of enterprises which fail to fulfill their production cost plans is very small; accordingly, strict enforcement of the principle of adequate cover can result in only a limited number of queuing up cases.

Hungary has adopted the "akkreditiv" system for enterprises which fail to fulfill their payment obligations on time. Under this system, such enterprises are required to deposit the value of their orders in advance. However, this system has been applied only to a limited extent to prevent a further increase in the large number of enterprises which can obtain materials only by the "akkreditiv" system. The necessity for "akkreditiv" stigmatizes an enterprise in the USSR. On the other hand, in Hungary, it does not have a degrading characteristic; in fact, it is easier for a Hungarian enterprise to obtain an "akkreditiv" credit than a regular one.

The ministries are reporting the consolidated net profit payments to the Ministry of Finance and thus are in a position to cover the unrealized profit payments of their enterprises by using working capital for this purpose and requiring the enterprises in question to prepare a special plan for raising the missing amount of profit. That this method is practical has been evidenced by the case of MAVAG, which carried out such a special plan with great success.

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Yet, the ministries usually choose the easier way out by demanding extension of credit for active queuing up or the discontinuance of the system of profit payments in advance. ("Active queuing up" occurs when an enterprise works well and nevertheless becomes insolvent because its customers fail to meet their payment obligations.) However, extension of credit in case of active queuing up would favor enterprises whose insolvency is their own fault. For example, if such credit were extended to a metallurgical supply enterprise, this enterprise could make uninterrupted deliveries to metallurgical enterprises which fail to meet their payment obligations because they have used up part of their working funds. Discontinuance of the profit payments in advance, on the other hand, would facilitate the deterioration of profits. The remedy for active queuing up would seem to lie not in lax handling of the credit system but in improvement of the activities of the ministries and directorates and the application of sanctions (refusal to make deliveries, etc.) to the enterprises concerned.

The Hungarian credit system has impaired enterprise management in other respects also. The credit decree, correctly, introduced only a limited number of credit types. In practice, however, 37 credit types were put into use. This increase is due to the National Bank's practice of imposing more and more restrictions on the enterprises and demanding an increasing amount of data from them. However, the task of credit control is not the investigation of minute details and the imposition of excessive restrictions on the enterprises, but the analysis of the most important data and the prevention of errors which endanger the desirable development of production costs. Recently, 12 credit types were discontinued.

These errors must be eliminated, because the credit system plays an important part in the new government program.

In industry, short-term credits must be increased in an effort to boost production. On the other hand, certain enterprises, especially in the machine industry, must be forced to reduce inventories by credit restrictions.

In the metallurgical and machine industries, credits have been stepped up as a result of the change-over to the New Course, which called for frequent modifications of plans and the irregular flow of materials.

The importance of agricultural credits has also increased. In this connection the state farms deserve special attention. Because of the weaknesses in the management of state farms, socialist credit extension principles cannot yet be applied to them. However, the National Bank has obtained good results in those state farms to which it had delegated a financial commissioner.

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